

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07
TRSE-00 LAB-04 SIL-01 OMB-01 /068 W
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P 221326Z AUG 78
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC PRIORITY 3210
INFO EC COLLECTIVE
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 2 THE HAGUE 4656

PASS AGRICULTURE ELECTRONICALLY

E.O. 11652: N/A
TAGS: EAGR EEC NL
SUBJECT: LEVIES ON EC IMPORTS OF MILLING RESIDUES

REF: (A) THE HAGUE TOFAS 524, (B) THE HAGUE 4378, (C) BONN 14908
(D) STATE 206285

SUMMARY: DUTCH ARE CONCERNED THAT COMMISSION STUDY ON
FEEDSTUFF IMPORTS WILL CONTAIN SPECIFIC ACTION ON WHEAT
BY-PRODUCTS. IF IT DOES, NETHERLANDS WILL OPPOSE LEVY
INCREASE BUT POLITICALLY IS NOT IN A POSITION TO PUSH TOO
HARD ON THIS ISSUE. ANY SIGNIFICANT INCREASE IN WHEAT
BY-PRODUCTS LEVY WILL RESULT IN SHARP REDUCTION IN IMPORTS
OF THIS PRODUCT FROM U.S. AND OTHER ORIGINS. END SUMMARY.

1. SPECIFICS OF PLAN TO INCREASE LEVY ON WHEAT MILLING BY-
PRODUCTS HAVE BEEN REPORTED IN REF (A). ACTION AGAINST
WHEAT BY-PRODUCTS IS REPORTEDLY RESPONSE BY COMMISSION TO
COMPLAINT BY FRG THAT THIRD COUNTRY BY-PRODUCT IMPORTS
ARE HURTING GERMAN MILLING INDUSTRY AS OUTLINED

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REF (C). GERMAN DELEGATION ALSO ARGUED THAT INEXPENSIVE
BY-PRODUCT IMPORTS ARE KEEPING PRICES OF DOMESTIC (EC)
BY-PRODUCTS AT RELATIVELY LOW LEVELS. THIS MEANS THAT
TO ACHIEVE PROFITABLE MILLING OPERATION HIGHER PRICES
MUST BE RECEIVED FOR FLOUR. HIGHER EC FLOUR PRICES
MEAN A LARGER EXPORT SUBSIDY WHICH PUTS AN ADDED STRAIN
ON THE AGRICULTURAL BUDGET. THIS, THIS ARGUMENT CONCLUDES THAT

UNREASONABLY LOW EC IMPORT LEVIES ON WHEAT BY-PRODUCTS
IS IN FACT INCREASING THE COMPETITIVE POSITION OF OTHER
WHEAT FLOUR EXPORTING COUNTRIES.

2. THE DUTCH VIEW ON WHEAT BY-PRODUCT IMPORTS REMAINS
AS REPORTED REF (B). THERE HAVE BEEN WIDE DISCUSSIONS
WITHIN THE DUTCH GOVERNMENT ON WHEAT BY-PRODUCTS AND THE
WIDER ISSUE OF THE "FEEDSTUFFS PROBLEM" AS PERCEIVED
BY THE EC COMMISSION. DUTCH OFFICIALS ARE NERVOUS
ABOUT THE SITUATION BUT SINCE THE NETHERLANDS IS THE
MAJOR QUOTE OFFENDER UNQUOTE (I.E., BIGGEST USER OF NON-
GRAIN FEED INGREDIENTS), THEY ARE VERY RELUCTANT TO
INQUIRE FURTHER ABOUT THE STATUS OF THE EC STUDY. THEY
INTEND TO AWAIT SPECIFIC COMMISSION PROPOSALS. IF THE
COMMISSION OPTS FOR A LARGE INCREASE ON THE BY-PRODUCT
LEVY, THEY WILL OPPOSE IT ON THE GROUNDS THAT IT WILL
SOLVE NEITHER THE PROBLEMS OF THE EC WHEAT MILLING
INDUSTRY NOR LEAD TO LOWER IMPORTS OF NON-GRAIN FEED
INGREDIENTS.

3. THE DUTCH WILL SAY THAT WHEAT BY-PRODUCT IMPORTS HAVE
LITTLE RELATIONSHIP TO THE LARGER PROBLEMS OF THE
MILLING INDUSTRY. THEY WILL ARGUE THAT WHEAT BY-PRODUCTS
ARE A TRADITIONAL IMPORT UPON WHICH THE DUTCH AND OTHER
EC FEED COMPOUNDING INDUSTRIES HAVE COME TO DEPEND.
FURTHER, BECAUSE WHEAT BY-PRODUCTS CAN BE EASILY SUBSTITUTED
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BY OTHER INGREDIENTS, THE INTENDED END RESULT OF
INCREASING THE GRAIN SHARE (EC GRAINS) IN FEED RATIONS
WILL NOT NECESSARILY BE ACHIEVED. HOWEVER, AS
PREVIOUSLY REPORTED (REF (B)), WE DO NOT THINK DUTCH
WILL PUT UP TOO MUCH RESISTANCE ON THIS ISSUE IF THEY
FIND THEMSELVES IN A MINORITY POSITION. WE HAVE BEEN
TOLD THAT NETHERLANDS WILL NOT PUT UP STRONG OPPOSITION
TO A SMALLER INCREASE IN THE LEVY.

4. WE SHARE BONN'S CONCERN (REF (C)) REGARDING NEWLY
ACQUIRED COMMISSION AUTHORITY TO REWRITE TARIFF NOMEN-
CLATURE. DUTCH TELL US THEY HAVE LOOKED INTO THIS
CAREFULLY AND HAVE FOUND THAT COMMISSION WILL HAVE
AUTHORITY BOTH TO RECLASSIFY TARIFFS WITHIN PRODUCT
LINES AS WELL AS REDEFINE PARAMETERS THAT DETERMINE THE
TARIFF LINES THEMSELVES. IN THE CASE OF WHEAT BY-PRODUCTS,
THIS MEANS THAT LEVY COEFFICIENT MAY BE ADJUSTED BY SIMPLY
CHARGING THE TWO FACTORS (STARCH AND FIBER CONTENT) THAT
DETERMINE THE CATEGORY INTO WHICH THE PRODUCT WILL FALL.

5. OUR CONTACTS WITH FEED COMPOUNDERS INDICATE THAT UNDER
EXISTING CONDITIONS WITH REGARD TO PRICES, AVAILABILITIES,

ETC., A HIGHER LEVY ON IMPORTED WHEAT BY-PRODUCTS WILL PUSH THIS PRODUCT OUT OF FEED RATIONS. USING THE LINEAR PROGRAMMING LEAST COST APPROACH, WHEAT PRODUCTS ARE NOW BORDERLINE AND WOULD NOT BE COST EFFECTIVE GIVEN ANY

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SIGNIFICANT INCREASE IN PRICE. THE PRODUCTS THAT WOULD MOST LIKELY REPLACE WHAT BY-PRODUCTS ARE GRAIN AND/OR OILSEED MEALS. USAGE OF TAPIOCA AND CORN GLUTEN FEED MEAL ARE ALREADY AT A MAXIMUM IN FEED RATIONS. ASSUMING THAT INCREASED LEVIES APPLY ONLY TO TARIFF LINE 23.02 A.II, THERE IS ALSO A LIKELIHOOD THAT THERE WILL BE SOME INCREASED USAGE OF CORN AND RICE BRAN (23.02 A.I.) THUS, THE IMPACT ON U.S. EXPORTS TO THE NETHERLANDS WOULD LIKELY BE: A) SHARP DECLINE IN EXPORTS OF WHEAT BY-PRODUCTS; B) LITTLE OR NO IMPACT ON U.S. FEED GRAIN EXPORTS SINCE EC GRAINS ARE IN SUFFICIENT SUPPLY; C) SOME INCREASE IN SOYBEAN/SOYBEAN MEAL EXPORTS; AND D) PERHAPS SOME INCREASE IN CORN AND RICE BY-PRODUCT EXPORTS.

6. ALTHOUGH THERE ARE NO KNOWN SPECIFIC PROPOSALS AFFECTING OTHER NON-GRAIN INGREDIENTS, THE DUTCH TELL US THAT WHEAT BY-PRODUCTS ARE BEING STUDIED WITHIN THE FRAMEWORK OF THE LARGER "FEEDSTUFF PROBLEMS," THEY FEEL THAT THE MAJOR THRUST OF THE EC STUDY WILL BE ON LIMITED OFFICIAL USE

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TAPIOCA BECAUSE A) IT IS THE MOST IMPORTANT QUOTE
GENUINE GRAIN SUBSTITUTE UNQUOTE, AND B) THE PROBLEM
MAY BE SOLVED BILATERALLY WITH ONE COUNTRY (THAILAND).
THE DUTCH SAY THAT THE QUOTE SOLUTION UNQUOTE WILL
PROBABLY INVOLVE AN INFORMAL VOLUNTARY RESTRAINT
AGREEMENT WITH THE THAIS. COMMENT: IN FACT, SOME
TRADE SOURCES FEEL THAT SUCH AN ARRANGEMENT MAY ALREADY
EXIST. END COMMENT.

7. THE DUTCH SEE ACTION AGAINST WHEAT BY-PRODUCTS NOT
AS A MAJOR PROBLEM OF ITSELF BUT RATHER AS A POTENTIALLY
DANGEROUS PRECEDENT WHICH COULD EVENTUALLY AFFECT OTHER
PRODUCTS OF MORE TRADE INTEREST SUCH AS CORN GLUTEN
FEED MEAL AND CITRUS PULP. (THE NETHERLANDS ALONE
ACCOUNTS FOR 80-90 PERCENT OF TOTAL EC IMPORTS OF THESE
PRODUCTS.) HOWEVER, THEY CANNOT SUBSTANTIATE RUMORS
THAT THE FINAL EC STUDY WILL CONTAIN SPECIFIC MEASURES
AGAINST THESE PRODUCTS. IF THESE PRODUCTS ARE AFFECTED,
THE DUTCH CAN BE EXPECTED TO OPPOSE THE MEASURES MUCH
MORE VIGOROUSLY.

8. WE FEEL THAT U.S. REPRESENTATION ON THIS ISSUE SHOULD
ASSUME THAT OUR POSITION DOES NOT REPEAT NOT HAVE THE
FULL SUPPORT OF THE EC MEMBER COUNTRIES. IN THE
NETHERLANDS, THE WHEAT MILLING INDUSTRY FORMS A RATHER
POWERFUL LOBBY AND THIS IS PROBABLY TRUE FOR OTHER EC
COUNTRIES AS WELL. AS NOTED ABOVE, FEED COMPOUNDERS AND
ASSOCIATIONS APPEAR TO BE LESS CONCERNED ABOUT WHEAT
BY-PRODUCTS THAN WITH POSSIBILITY EC ACTION MIGHT
ESTABLISH A DANGEROUS PRECEDENT. FINALLY, THE DUTCH
GOVERNMENT IS VERY AWARE OF ITS SUSCEPTIBILITY ON OTHER
AGRICULTURAL ISSUES OF MORE INTEREST TO THE NETHERLANDS

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KE.G., DAIRY).

9. THEREFORE, WE FEEL THAT U.S. ARGUMENTS, BEYOND THE
OBVIOUS ONE OF NEGATIVE IMPACT ON U.S. EXPORTS ITSELF,
SHOULD RUN ALONG THE LINES IN PARA 3 ABOVE. WE SHOULD
STRESS THAT IMPORTS OF THIRD COUNTRY BY-PRODUCTS HAVE
LITTLE, IF ANY, RELATIONSHIP TO THE PROBLEMS OF EC
WHEAT MILLERS; THAT THIS PRODUCT IS A TRADITIONAL FEED
INGREDIENT AND THAT SUPPLYING COUNTRIES, INCLUDING THE
U.S., HAVE COME TO DEPEND ON EXPORT MARKETS OF WHICH

THE EC IS BY FAR THE MOST IMPORTANT.

JOSEPH

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